Pros & Cons of Operating a Residential Buy-to-let Property Through a Company

Pros

Companies are able to deduct interest costs in full against their rental profits. This is not the case for properties held personally.

Corporation tax rates range from 19% to 25%. However this means they are lower than the range of income tax rates (top rate 45%). The corporate rate applies equally to capital gains, which can be taxed at a rate of up to 28% personally.

Income extracted from the company can be timed – it can be taken at a time and an amount that suits the owner. Profits from a property that are owned personally are taxed as they arise.

If no income is drawn from the company in a tax year, there will be no personal tax implications. The profits can be used to reinvest in further properties in the company's name.

Companies can aid with Inheritance Tax planning, as it is easier to gift small shareholdings in a company to descendants than it is to gift fractional holdings in a property.

Dividends are taxed at a lower marginal rate than rental profits when it comes to income tax – particularly useful if taking an income from the company later in life or when other income sources cease.

Each shareholder can earn £1,000 in dividends each year tax free.

A company can pay a salary to the directors which has several benefits, such as accruing state pension qualifying years and allowing increased personal pension contributions.

A company can remunerate its directors by way of pension contribution. Landlords with sole income from property are severely limited on the tax relief available on pension contributions.

Depending on the investors' circumstances, lending money to a company and charging interest can be a tax efficient form of remuneration.

A taxpayer can claim relief for interest costs suffered personally where the money is used directly to finance a property investment company.

A company offers protection for shareholders in the form of limited liability. This means in the event of a failure of the business, creditors cannot make a claim on any assets held personally by director/shareholders, except in rare circumstances.

Cons

Finance costs tend to be higher for limited companies as opposed to personal ownership. In addition, there are fewer lenders available.

The general compliance costs are usually higher with a company (for example, accounts are required, and they are more detailed than what would usually be required for an unincorporated business).

There are some additional rules and compliance that would only apply to a company, such as the 'Annual Tax on Enveloped Dwellings' rules.

A company does not benefit from the annual capital gains allowance that is available for the disposal of personally held assets.

Extracting capital from a company requires more planning than otherwise would be needed where a property is owned personally. This is because a company will pay tax on any gain it has made on the disposal and then the owners will pay tax on extracting the funds – a double tax charge on one transaction.

If a company pays for personal expenses, benefit in kind rules may apply.

Lenders may impose restrictions on the number/age of directors and shareholders in a company scenario. They may also require personal guarantees.

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